

CREATIVITY  
INSPIRED  
HYOSUNG

2017 Financial Statements

**HYOSUNG**

## Table of Contents

03	Independent Auditor's Report
06	Separate Statements of Financial Position
07	Separate Statements of Profit or Loss
08	Separate Statements of Comprehensive Income
09	Separate Statements of Changes in Equity
10	Separate Statements of Cash Flows
11	Independent Auditor's Report
14	Consolidated Statements of Financial Position
15	Consolidated Statements of Profit or Loss
16	Consolidated Statements of Comprehensive Income
17	Consolidated Statements of Changes in Equity
18	Consolidated Statements of Cash Flows
20	Board of directors
21	Corporate management

# Independent Auditor's Report

## To the Board of Directors and Shareholders of Hyosung Corporation

We have audited the accompanying separate financial statements of Hyosung Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

### **Management's Responsibilities for the Financial Statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibilities**

Our responsibility is to express an opinion on the separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of Hyosung Corporation as at December 31, 2017 and 2016, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

### **Emphasis of Matters**

Without qualifying our opinion, we draw attention to the following area of focus.

(1) Area of focus on construction contracts in accordance with the Practical Guidance of Auditing Standard 2017-1 are those matters that, in the auditor's professional judgment and communication with those charged with governance, were of most significance in the audit of the separate financial statements of the current period. These matters were addressed in the context of the audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have addressed the output of the audit process for the area of focus as below in forming an audit opinion on the separate financial statements of Hyosung Corporation as a whole.

# Independent Auditor's Report

## A. General Information

Common information applied to the area of focus on construction contract described in this audit report are as follows:

As explained in the Note 2 to the separate financial statements (Significant Accounting Policies), the Company recognizes contract revenue and contract costs associated with the construction contract as revenue and expense respectively based on the percentage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion of the contract activity is the proportion that costs incurred to date, excluding any contract cost that does not reflect the work performed, bear to the estimated total costs of the contract. The Company presents the gross amount due from customer for contract work as an asset for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, and presents the gross amount due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). The Company's operating segments which apply accounting policies of construction contract are construction segment and part of Heavy industrial segment.

## B. Input method

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions), total contract revenue is measured based on the initial amount of revenue agreed in the contract. However, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event; for example, the amount of contract revenue may increase as a result of variations in contract work, claims and inventive payments, on the other hand, the amount of contract revenue may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. The measurement of contract revenue is also affected by the percentage of completion measured based on the aggregated amount costs incurred. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

Uncertainty of estimating total contract revenue and the changes in estimated total contract revenue and costs may have negative impacts on the profit or loss for the current period (or for the succeeding year); therefore, we identified revenue recognition based on the input method as a significant risk.

As at December 31, 2017, in respect of the Company's revenue recognition based on the input method, we have performed the following audit procedures.

- We assessed whether the accounting policy for revenue recognition is appropriate.
- We reviewed major contract terms and conditions.
- We reviewed the Company's internal control over reviews and approvals of new contracts by personnel with appropriate authority.

## C. Uncertainty of estimated total contract costs (or estimated construction costs)

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions) and in the Note 31 to the separate financial statements (Construction Contracts), total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others. When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects would decrease by ¥ 126,169 million.

The measurement of estimated contract costs is affected by variety of uncertainties such as changes in the specifications or design, changes in construction environment, the extension of construction period, fluctuation of material cost, and others. The impacts of changes in estimated total contract costs on the profit or loss for the current period (or for the succeeding year) are considered; therefore, we identified uncertainty of estimated total contract costs as a significant risk.

As at December 31, 2017, in respect of the Company's uncertainty of estimated total contract costs, we have performed the following audit procedures.

- We tested for internal control activity to approve of total contract cost.
- We compared and performed analytical review procedures to determine the rate of cost of sales (total construction cost / total contract revenue) of each construction site.
- We checked whether there were final approvals of the total estimated contract costs and compare the amounts with the total contract cost in the Company's Financial Information Systems.
- We reviewed the cause of change for projects with significant fluctuations in total contract costs.
- We made inquiries about the cause of the significant difference in the estimated total contract cost at the end of 2016 and the final cumulative cost incurred of the project which ended during 2017.

## D. Measurement of percentage of completion

The construction costs incurred of one site can be transferred to another site due to the variance in profit margins of sites and the identified factors causing the increase in the estimation of contract costs may not be reflected in the contract costs timely; therefore, we identified measurement of percentage of completion as a significant risk.

As at December 31, 2017, in respect of the Company's estimated total contract costs and aggregated cost incurred that have impacts on the measurement of percentage of completion, we have performed the following audit procedures.

- We tested the completeness and appropriateness of the aggregate costs incurred.
- We reviewed the journal entries prepared for the transfer of incurred expenses between construction sites.
- We tested whether costs are attributed to the corresponding projects.
- We recalculated the percentage of completion for construction contracts.
- We tested internal control of the Company in relation to approval and reporting process of the cost incurred.

**E. Collectability of the gross amount due from customers for contract work**

As the collectability of the gross amount due from customers for contract work is in doubt in case of the increase of unsold housing due to the real estate market situation or the deterioration of the financial condition of customers, we identified collectability of the gross amount due from customers for contract work as a significant risk.

As at December 31, 2017, in respect of the contract that has a significant increase in the gross amount due from customers for contract work, we have performed the following audit procedures.

- We identified contacts with significant differences between percentage of completion for accounting purpose and actual construction billing ratio in accordance with contractual right to demand for payment, and inquired about reasons of delays in billings and tested based on external evidences.
- We performed impairment test for the contracts with uncertainties in collectability.

**F. Accounting treatment regarding variations in contract**

As explained in Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions), as at December 31, 2017, the Company measures total contract revenue at the initial amount of revenue agreed in the contract; however, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events such as increase in contract revenue due to variations in contract work, claims and incentive payment; or decrease contract revenue as a result of penalties arising from delay caused by the Company in the completion of the contract. A variation is included in contract revenue when the amount of revenue can be reliably measured.

**Other Matter**

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea  
February 26, 2018

As explained in the Note 31 to the separate financial statements (Construction Contracts), changes in total contract revenue have occurred and while the total contract revenue is increased due to changes in specifications, estimated construction costs may not be timely updated. Accordingly there are risk of misstatements in contract revenue; therefore, we identified accounting treatment regarding variations in contract work as a significant risk.

As at December 31, 2017, in respect of accounting treatment regarding variations in contract work, we have performed the following audit procedures.

- We inquired on the Company's accounting policy for accounting treatment with regard to variations in contracts.
- In respect of construction contracts with changes in terms and conditions, we performed reconciliation for total contract revenue based on the Company's Financial Information Systems and external evidences.
- We determined whether additional contract cost estimated based on the variation in the contract has been reflected in measurement of estimated total contract cost and percentage of completion.

**(2) Restatement of Prior Year Financial Statements**

As explained in Note 41, the Company has restated its prior year financial statements to correct the understatement of impairment losses on available-for-sale financial assets as at December 31, 2013. As a result, the retained earnings and other comprehensive income for the year ended December 31, 2016, decreased and increased respectively by ₩ 24,403 million and there is no impact on the prior year's separate income statement of profit or loss.

This report is effective as of February 26, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

※ You can find the notes from Audit Report on HYOSUNG website (<http://www.hyosung.com>).

# Separate Statements of Financial Position

December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	46,622	40,667
Trade and other receivables	963,037	807,132
Due from customers for contract work	139,977	113,857
Other financial assets	18,513	6,964
Other current assets	122,461	93,889
Inventories	642,743	588,657
	<b>1,933,353</b>	<b>1,651,166</b>
<b>Non-current assets</b>		
Long-term trade and other receivables	328,125	285,456
Property, plant and equipment	3,339,790	3,330,048
Investment property	427,037	468,772
Intangible assets	24,430	84,092
Investments in subsidiaries and associates	1,521,103	1,584,669
Other non-current financial assets	242,214	246,585
Other non-current assets	28,231	29,481
	<b>5,910,930</b>	<b>6,029,103</b>
<b>Total assets</b>	<b>7,844,283</b>	<b>7,680,269</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	1,418,148	1,170,858
Due to customers for contract work	76,705	91,981
Borrowings	1,318,461	1,248,896
Other financial liabilities	3,198	29,534
Current tax liabilities	45,606	124,486
Other current liabilities	249,004	218,502
	<b>3,111,122</b>	<b>2,884,257</b>
<b>Non-current liabilities</b>		
Long-term trade and other payables	204,618	57,992
Long-term borrowings	811,362	1,069,208
Other non-current financial liabilities	584	6,467
Post-employment benefit obligation	15,605	31,664
Deferred tax liabilities	104,615	158,156
Other non-current liabilities	122,666	55,309
	<b>1,259,450</b>	<b>1,378,796</b>
<b>Total liabilities</b>	<b>4,370,572</b>	<b>4,263,053</b>
<b>Equity</b>		
Share capital	175,587	175,587
Share premium	130,826	130,826
Retained earnings	2,937,089	2,774,999
Other components of equity	230,209	335,804
<b>Total equity</b>	<b>3,473,711</b>	<b>3,417,216</b>
<b>Total liabilities and equity</b>	<b>7,844,283</b>	<b>7,680,269</b>

Hyosung Corporation  
**Separate Statements of Profit or Loss**

Years Ended December 31, 2017 and 2016  
 (in millions of Korean won, except per share amounts)

	2017	2016
<b>Revenue</b>	<b>8,509,950</b>	<b>7,974,341</b>
<b>Cost of sales</b>	<b>(7,362,130)</b>	<b>(6,614,455)</b>
<b>Gross profit</b>	<b>1,147,820</b>	<b>1,359,886</b>
Selling and administrative expenses	(636,745)	(635,359)
Research and development expenses	(95,650)	(91,335)
<b>Operating profit</b>	<b>415,425</b>	<b>633,192</b>
Other income	235,239	247,523
Other expenses	(299,792)	(106,101)
Finance income	306,454	292,162
Finance expenses	(307,614)	(412,324)
Impairment loss on investment in subsidiaries and associates	(64,449)	(29,212)
Profit before income tax	285,263	625,240
Income tax benefit (expense)	30,804	(86,868)
<b>Profit for the year</b>	<b>316,067</b>	<b>538,372</b>
<b>Basic earnings per share</b>	<b>9,500</b>	<b>16,183</b>

# Separate Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2016
<b>Profit for the year</b>	<b>316,067</b>	<b>538,372</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of net defined benefit liability	12,366	(637)
<b>Items that may be subsequently reclassified to profit or loss</b>		
Changes in the fair value of available-for-sale financial assets	(23,714)	8,946
Reclassification due to disposal of available-for-sale financial assets	(169)	(3,131)
Exchange differences	(1,912)	(341)
<b>Other comprehensive income for the period, net of tax</b>	<b>(13,429)</b>	<b>4,837</b>
<b>Total comprehensive income for the period</b>	<b>302,638</b>	<b>543,209</b>

Hyosung Corporation

## Separate Statements of Changes in Equity

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total
<b>Balance at January 1, 2015</b>	<b>175,587</b>	<b>130,826</b>	<b>2,353,704</b>	<b>330,330</b>	<b>2,990,447</b>
<b>Total comprehensive income</b>					
Profit for the period	-	-	538,372	-	538,372
Change in value of available-for-sale financial assets	-	-	-	8,947	8,947
Reclassification due to disposal of available-for-sale financial assets	-	-	-	(3,132)	(3,132)
Remeasurements of net defined benefit liability	-	-	(637)	-	(637)
Exchange differences	-	-	-	(341)	(341)
<b>Transactions with owners</b>					
Dividends paid	-	-	(116,440)	-	(116,440)
<b>Balance at December 31, 2016</b>	<b>175,587</b>	<b>130,826</b>	<b>2,774,999</b>	<b>335,804</b>	<b>3,417,216</b>
<b>Balance at January 1, 2017</b>	<b>175,587</b>	<b>130,826</b>	<b>2,774,999</b>	<b>335,804</b>	<b>3,417,216</b>
<b>Total comprehensive income</b>					
Profit for the period	-	-	316,067	-	316,067
Change in value of available-for-sale financial assets	-	-	-	(23,714)	(23,714)
Reclassification due to disposal of available-for-sale financial assets	-	-	-	(169)	(169)
Remeasurements of net defined benefit liability	-	-	12,366	-	12,366
Exchange differences	-	-	-	(1,912)	(1,912)
Decrease due to merger	-	-	-	(79,800)	(79,800)
<b>Transactions with owners</b>					
Dividends paid	-	-	(166,343)	-	(166,343)
<b>Balance at December 31, 2017</b>	<b>175,587</b>	<b>130,826</b>	<b>2,937,089</b>	<b>230,209</b>	<b>3,473,711</b>

## Separate Statements of Cash Flows

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2016
<b>Cash flows from operating activities</b>		
Cash generated from operations	587,285	1,154,431
Income taxes paid	(93,498)	(63,885)
Interest paid	(70,018)	(86,681)
Interest received	822	877
Dividends received	191,890	189,810
<b>Net cash inflow from operating activities</b>	<b>616,481</b>	<b>1,194,552</b>
<b>Cash flows from investing activities</b>		
Decrease in loans	2,175	22,054
Proceeds from sale of short-term financial Instruments	31,379	7
Proceeds from sale of available-for-sale financial assets	823	48,169
Collection of long-term loans	27,429	-
Decrease in long-term deposits provided	7,954	5,408
Proceeds from sale of property, plant and equipment	2,253	8,437
Government grants received	343	1,269
Proceeds from sale of investment property	56,000	5,416
Proceeds from sale of intangible assets	1,212	5,542
Proceeds from sale of investment in subsidiaries and associates	7	1,639
Proceeds from sale of long-term financial Instruments	318	-
Increase in cash due to merger	22,617	-
Increase in short-term loans	(2,480)	(46,148)
Payments for available-for-sale financial assets	(71,858)	(8,333)
Increase in long-term loans	(162,475)	(39,676)
Increase in long-term deposits provided	(17,374)	(9,029)
Payments for property, plant and equipment	(172,975)	(276,183)
Payments for investment property	(780)	(4,326)
Payments for intangible assets	(4,545)	(4,848)
Payment for acquisition of subsidiaries and associates, net of cash acquired	(883)	(5,850)
Payment for acquisition of short-term financial instruments	(29,075)	-
Payments for long-term financial instruments	(2,482)	(2,413)
Payments for other investments	(22)	(160)
<b>Net cash outflow from investing activities</b>	<b>(312,439)</b>	<b>(299,025)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	6,469,089	5,989,480
Proceeds from long-term borrowings	60,000	184,395
Proceeds from issuance of debentures	-	348,867
Government grants received	1,830	2,598
Repayment of short-term borrowings	(6,188,062)	(6,371,093)
Repayment of current portion of long-term borrowings	(472,752)	(813,540)
Repayment of long-term borrowings	-	(100,000)
Repayment of government grants	(1,850)	(1,133)
Dividends paid	(166,343)	(116,440)
<b>Net cash outflow from financing activities</b>	<b>(298,088)</b>	<b>(876,866)</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,954</b>	<b>18,661</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>40,667</b>	<b>22,006</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>46,621</b>	<b>40,667</b>

# Independent Auditor's Report

## To the Board of Directors and Shareholders of Hyosung Corporation

We have audited the accompanying consolidated financial statements of Hyosung Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

### **Management's Responsibilities for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibilities**

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hyosung Corporation and its subsidiaries as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

### **Emphasis Matters**

Without qualifying our opinion, we draw attention to the following area of focus.

#### **(1) Auditor's emphasis on the area of focus on construction contracts.**

Area of focus on construction contracts in accordance with the Practical Guidance of Auditing Standard 2016-1 are those matters that, in the auditor's professional judgment and communication with those charged with governance, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have addressed the output of the audit process for the area of focus as below in forming an audit opinion on the consolidated financial statements of Hyosung Corporation and its subsidiaries as a whole.

# Independent Auditor's Report

## A. General Information

Common information applied to the area of focus on construction contract described in this audit report are as follows:

As explained in the Note 2 to the consolidated financial statements (Significant Accounting Policies), the Group recognizes contract revenue and contract costs associated with the construction contract as revenue and expense respectively based on the percentage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion of the contract activity is the proportion that costs incurred to date, excluding any contract cost that does not reflect the work performed, bear to the estimated total costs of the contract. The Group presents the gross amount due from customers for contract work as an asset for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, and presents the gross amount due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). The Group's operating segments which apply accounting policies of construction contract are construction segment and part of heavy industrial segment.

## B. Input method

As explained in the Note 3 to the consolidated financial statements (Critical Accounting Estimates and Assumptions), total contract revenue is measured based on the initial amount of revenue agreed in the contract. However, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event; for example, the amount of contract revenue may increase as a result of variations in contract work, claims and incentive payments, on the other hand, the amount of contract revenue may decrease as a result of penalties arising from delays caused by the Group in the completion of the contract. The measurement of contract revenue is also affected by the percentage of completion measured based on the aggregated amount costs incurred. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

Uncertainty of estimating total contract revenue and the changes in estimated total contract revenue and costs may have negative impacts on the profit or loss for the current period (or for the succeeding year); therefore, we identified revenue recognition based on the input method as a significant risk.

As at December 31, 2017, in respect of the Group's revenue recognition based on the input method, we have performed the following audit procedures.

- We assessed whether the accounting policy of revenue recognition is appropriate.
- We reviewed major contract terms and conditions.
- We reviewed the Group's internal control over reviews and approvals of new contracts by personnel with appropriate authority.

## C. Uncertainty of estimated total contract costs (or estimated construction costs)

As explained in the Note 3 to the consolidated financial statements (Critical Accounting Estimates and Assumptions) and in the Note 29 to the consolidated financial statements (Construction Contracts), total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others. When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects would decrease by ¥126,924 million.

The measurement of estimated contract costs is affected by variety of uncertainties such as changes in the specifications or design, changes in construction environment, the extension of construction period, fluctuation of material cost, and others. The impacts of changes in estimated total contract costs on the profit or loss for the current period (or for the succeeding year) are considered; therefore, we identified uncertainty of estimated total contract costs as a significant risk.

As at December 31, 2017, in respect of the Group's uncertainty of estimated total contract costs, we have performed the following audit procedures.

- We tested for the internal control activity to approve of total contract cost.
- We compared and performed analytical review procedures to determine the rate of cost of sales (total construction cost / total contract revenue) of each construction site.
- We checked whether there were final approvals of the total estimated contract costs and compared the amounts with the total contract cost in the Group's financial information systems.
- We reviewed the cause of change for projects with significant fluctuations in total contract costs.
- We made inquiries about the cause of the significant difference in the estimated total contract cost at the end of 2016 and the final cumulative cost incurred of the project which ended during 2017.

## D. Measurement of percentage of completion

The construction costs incurred of one site can be transferred to another site due to the variance in profit margins of sites and the identified factors causing the increase in the estimation of contract costs may not be reflected in the contract costs timely; therefore, we identified measurement of percentage of completion as a significant risk.

As at December 31, 2017, in respect of the Group's estimated total contract costs and aggregated cost incurred that have impacts on the measurement of percentage of completion, we have performed the following audit procedures.

- We tested the completeness and appropriateness of the aggregate costs incurred.
- We reviewed the journal entries prepared for the transfer of incurred expenses between construction sites.
- We tested whether costs are attributed to the corresponding construction sites.
- We recalculated the percentage of completion for construction contracts.
- We tested internal control of the Group in relation to approval and re-

porting process of cost incurred.

#### **E. Collectability of the gross amount due from customers for contract work**

As the collectability of the gross amount due from customers for contract work is in doubt in case of the increase of unsold housing due to the real estate market situation or the deterioration of the financial condition of customers, we identified collectability of the gross amount due from customers for contract work as a significant risk.

As at December 31, 2017, in respect of the contract that has a significant increase in the gross amount due from customers for contract work, we have performed the following audit procedures.

- We identified contracts with significant differences between percentage of completion for accounting purpose and actual construction billing ratio in accordance with contractual right to demand for payment, and inquired about reasons of delays in billings and tested based on external evidences.
- We performed impairment test for the contracts with uncertainties in collectability.

#### **F. Accounting treatment regarding variations in contract work**

As explained in Note 3 to the consolidated financial statements (Critical Accounting Estimates and Assumptions), as at December 31, 2017, the Group measures total contract revenue at the initial amount of revenue agreed in the contract; however, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events such as increase in contract revenue due to variations in contract work, claims and incentive payment; or decrease contract revenue as a result of penalties arising from delay caused by the Group in the completion of the contract. A variation is

included in contract revenue when the amount of revenue can be reliably measured.

As explained in the Note 29 to the consolidated financial statements (Construction Contracts), changes in total contract revenue have occurred and while the total contract revenue is increased due to changes in specifications, estimated construction costs may not be timely updated. Accordingly there are risk of misstatements in contract revenue; therefore, we identified accounting treatment regarding variations in contract work as a significant risk.

As at December 31, 2017, in respect of accounting treatment regarding variations in contract work, we have performed the following audit procedures.

- We inquired on the Group's accounting policy for accounting treatment with regard to variations in contracts.
- In respect of construction contracts with changes in terms and conditions, we performed reconciliation for total contract revenue based on the Group's Financial Information Systems and external evidences.
- We determined whether additional contract cost estimated based on the variation in the contract has been reflected in measurement of estimated total contract cost and percentage of completion.

#### **(2) Restatement of Prior Year Financial Statements**

As explained in the Note 41, the Group has restated its prior year consolidated financial statements to correct the understatement of impairment losses on available-for-sale financial assets for the year ended December 31, 2013. As a result, the retained earnings and other comprehensive income as at December 31, 2016, decreased and increased respectively by ₩ 24,403 million and there is no impact on the prior year's consolidated statement of profit or loss.

#### **Other Matter**

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

**Seoul, Korea  
February 26, 2018**

This report is effective as of February 26, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

※ You can find the notes from Audit Report on HYOSUNG website (<http://www.hyosung.com>).

## Consolidated Statements of Financial Position

December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	501,133	431,707
Trade and other receivables	2,013,675	1,736,071
Due from customers for contract work	140,355	116,982
Other financial assets	82,976	50,326
Other current assets	190,579	169,152
Inventories	1,679,932	1,524,770
Current tax assets	22,330	19,438
	<b>4,630,980</b>	<b>4,048,446</b>
<b>Non-current assets</b>		
Long-term trade and other receivables	313,040	305,046
Property, plant and equipment	5,663,176	5,845,022
Investment property	550,217	628,823
Intangible assets	318,130	420,070
Investments in associates	117,238	115,373
Other financial business assets	2,240,413	2,091,145
Other non-current financial assets	580,452	552,834
Other non-current assets	65,686	62,766
Deferred tax assets	55,646	51,276
	<b>9,903,998</b>	<b>10,072,355</b>
<b>Total assets</b>	<b>14,534,978</b>	<b>14,120,801</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	2,073,793	1,786,517
Due to customers for contract work	78,409	98,278
Borrowings	4,916,997	4,380,424
Other financial liabilities	4,088	29,504
Current tax liabilities	83,601	150,204
Other current liabilities	444,292	438,150
	<b>7,601,180</b>	<b>6,883,077</b>
<b>Non-current liabilities</b>		
Long-term trade and other payables	400,492	376,166
Long-term borrowings	2,345,089	2,662,171
Post-employment benefit obligation	23,275	43,499
Deferred tax liabilities	174,324	234,631
Other non-current financial liabilities	593	7,226
Other non-current liabilities	126,744	72,815
	<b>3,070,517</b>	<b>3,396,508</b>
<b>Total liabilities</b>	<b>10,671,697</b>	<b>10,279,585</b>
<b>Equity</b>		
<b>Equity attributable to owners of the Parent Company</b>		
Share capital	175,587	175,587
Share premium	130,826	130,826
Retained earnings	3,143,153	2,996,260
Other components of equity	203,950	316,536
	<b>3,653,516</b>	<b>3,619,209</b>
<b>Non-controlling interest</b>	<b>209,765</b>	<b>222,007</b>
<b>Total equity</b>	<b>3,863,281</b>	<b>3,841,216</b>
<b>Total liabilities and equity</b>	<b>14,534,978</b>	<b>14,120,801</b>

Hyosung Corporation and Subsidiaries

## Consolidated Statements of Profit or Loss

Years Ended December 31, 2017 and 2016  
(in millions of Korean won, except per share amounts)

	2017	2016
<b>Revenue</b>	<b>12,546,410</b>	<b>11,929,113</b>
<b>Cost of sales</b>	<b>(10,654,352)</b>	<b>(9,770,994)</b>
<b>Gross profit</b>	<b>1,892,058</b>	<b>2,158,119</b>
Selling and administrative expenses	(1,003,612)	(1,025,169)
Research and development expenses	(117,639)	(116,604)
<b>Operating profit</b>	<b>770,807</b>	<b>1,016,346</b>
Other income	66,841	66,276
Other expenses	(395,203)	(185,300)
Finance income	442,823	450,963
Finance expenses	(509,378)	(680,086)
Share of profit of associates accounted for using the equity method, net	6,938	28,315
Profit before income tax	382,828	696,514
Income tax expense	(41,989)	(221,112)
<b>Profit for the year</b>	<b>340,839</b>	<b>475,402</b>
<b>Profit is attributable to:</b>		
Owners of the Parent Company	325,574	455,526
Non-controlling interests	15,265	19,876
	<b>340,839</b>	<b>475,402</b>
<b>Earnings per share</b> attributable to the equity holders of the Parent Company		
<b>Basic earnings per share</b>	<b>9,786</b>	<b>13,692</b>

# Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2015
<b>Profit for the year</b>	<b>340,839</b>	<b>475,402</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of net defined benefit liability	14,004	(2,814)
Share of remeasurements of net defined benefit liabilities of associates	(742)	(295)
<b>Items that may be subsequently reclassified to profit or loss</b>		
Change in the fair value of available-for-sale financial assets	(34,114)	15,360
Share of other comprehensive income of associates	96	(111)
Exchange differences	(110,817)	19,170
<b>Other comprehensive income for the year, net of tax</b>	<b>(131,573)</b>	<b>31,310</b>
<b>Total comprehensive income for the year</b>	<b>209,266</b>	<b>506,712</b>
<b>Total comprehensive income for the year is attributable to:</b>		
Owners of the Parent Company	202,781	483,932
Non-controlling interest	6,485	22,780
	<b>209,266</b>	<b>506,712</b>

Hyosung Corporation and subsidiaries

## Consolidated Statements of Changes in Equity

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	Attributable to owners of the Parent Company					Non-controlling Interest	Total Equity
	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total		
<b>Balance at January 1, 2016</b>	<b>175,587</b>	<b>130,826</b>	<b>2,636,042</b>	<b>315,803</b>	<b>3,258,258</b>	<b>213,855</b>	<b>3,472,113</b>
<b>Total comprehensive income</b>							
Profit for the year	-	-	455,526	-	455,526	19,876	475,402
Remeasurements of net defined benefit liability	-	-	(1,618)	-	(1,618)	(1,196)	(2,814)
Share of remeasurements of net defined benefit liabilities of associates	-	-	(295)	-	(295)	-	(295)
Change in fair value of available-for-sale financial assets	-	-	-	14,402	14,402	959	15,361
Share of other comprehensive income of associates	-	-	-	111	(111)	-	(111)
Exchange differences	-	-	-	16,029	16,029	3,141	19,170
<b>Transactions with owners</b>							
Dividends paid	-	-	(116,440)	-	(116,440)	(18,480)	(134,920)
Changes in other additional capital	-	-	-	27	(27)	-	(27)
Others	-	-	(1,358)	5,156	(6,514)	3,852	(2,662)
<b>Balance at December 31, 2016</b>	<b>175,587</b>	<b>130,826</b>	<b>2,971,857</b>	<b>340,940</b>	<b>3,619,210</b>	<b>222,007</b>	<b>3,841,217</b>
<b>Balance at January 1, 2017</b>	<b>175,587</b>	<b>130,826</b>	<b>2,971,857</b>	<b>340,940</b>	<b>3,619,210</b>	<b>222,007</b>	<b>3,841,217</b>
<b>Total comprehensive income</b>							
Profit for the year	-	-	325,574	-	325,574	15,265	340,839
Remeasurements of net defined benefit liability	-	-	13,384	-	13,384	620	14,004
Share of remeasurements of net defined benefit liabilities of associates	-	-	(742)	-	(742)	-	(742)
Change in fair value of available-for-sale financial assets	-	-	-	(33,940)	(33,940)	(174)	(34,114)
Share of other comprehensive income of associates	-	-	-	96	96	-	96
Exchange differences	-	-	-	(101,591)	(101,591)	(9,226)	(110,817)
<b>Transactions with owners</b>							
Dividends paid	-	-	(166,343)	-	(166,343)	(20,130)	(186,473)
Changes in other additional capital	-	-	-	(149)	(149)	-	(149)
Others	-	-	(577)	(1,405)	(1,982)	1,403	(579)
<b>Balance at December 31, 2017</b>	<b>175,587</b>	<b>130,826</b>	<b>3,143,153</b>	<b>203,951</b>	<b>3,653,517</b>	<b>209,765</b>	<b>3,863,282</b>

# Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016  
(in millions of Korean won)

	2017	2016
<b>Cash flows from operating activities</b>		
Cash generated from operations	857,417	1,993,923
Income taxes paid	(151,873)	(142,842)
Interest paid	(179,904)	(191,771)
Interest received	150,841	141,127
Dividends received	8,141	12,501
<b>Net cash inflow from operating activities</b>	<b>684,622</b>	<b>1,812,938</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of other receivables	3,751	54,966
Proceeds from sale of other financial assets	100,125	130,927
Proceeds from sale of long-term other receivables	101,855	155,892
Proceeds from sale of property, plant and equipment	7,136	48,730
Government grants received	343	1,269
Proceeds from sale of investment property	56,419	5,416
Proceeds from sale of intangible assets	1,670	7,471
Proceeds from sale of investments in associates	724	2,958
Proceed from acquisition of subsidiaries, net of cash owned	(497)	-
Proceeds from sale of other non-current assets	-	9
Acquisition of other receivables	(29,791)	(96,317)
Acquisition of other financial assets	(119,546)	(102,172)
Acquisition of long-term other receivables	(183,009)	(52,253)
Acquisition of other non-current financial assets	(191,926)	(115,295)
Payments for property, plant and equipment	(704,262)	(903,271)
Payments for investment properties	(780)	(4,326)
Payments for intangible assets	(11,626)	(33,287)
Acquisition of investments in associates	(700)	(8,750)
Acquisition of other non-current assets	(89)	(300)
<b>Net cash outflow from investing activities</b>	<b>(970,203)</b>	<b>(908,333)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	10,856,705	11,927,716
Proceeds from long-term borrowings and issuance of debentures	1,575,293	2,394,653
Government grants received	1,830	2,598
Proceeds from long-term deposit received	15,670	-
Repayment of short-term borrowings	(10,367,253)	(12,647,162)
Repayment of long-term borrowings and debentures	(1,525,308)	(2,540,099)
Dividends paid	(166,343)	(116,440)
Change in non-controlling interest	(20,130)	(18,480)
Repayment of government grants	(1,849)	(1,134)
Repayment of deposit received	-	(739)
<b>Net cash inflow (outflow) from financing activities</b>	<b>368,615</b>	<b>(999,087)</b>
Effects of exchange rate changes on cash and cash equivalents	(13,608)	12,927
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>69,426</b>	<b>(81,555)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>431,707</b>	<b>513,262</b>
<b>Cash and cash equivalents at the end of the year in the consolidated statements of financial position</b>	<b>501,133</b>	<b>431,707</b>

Board of Directors

Corporate Management

# Board of directors



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Chairman



**Kyoo-Young Kim**  
President  
CTO, Industrial Materials PG



**H.S. Cho**  
President, Corporate Strategy Center  
President, Industrial Materials PG  
Chemicals PG CMO



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Hoam Foundation  
Former Chairman of the board, KBS



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President of International Commerce  
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Former Minister for Trade, Ministry of  
Foreign Affairs and Trade



**Joong-Kyung Choi**  
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Economy



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and Myoungin Tax Accounting  
Former Commissioner of National  
Tax Service



**Myung-Ja Kim**  
President of Korean Federation  
of Science and Technology Societies  
Former Minister of Environment

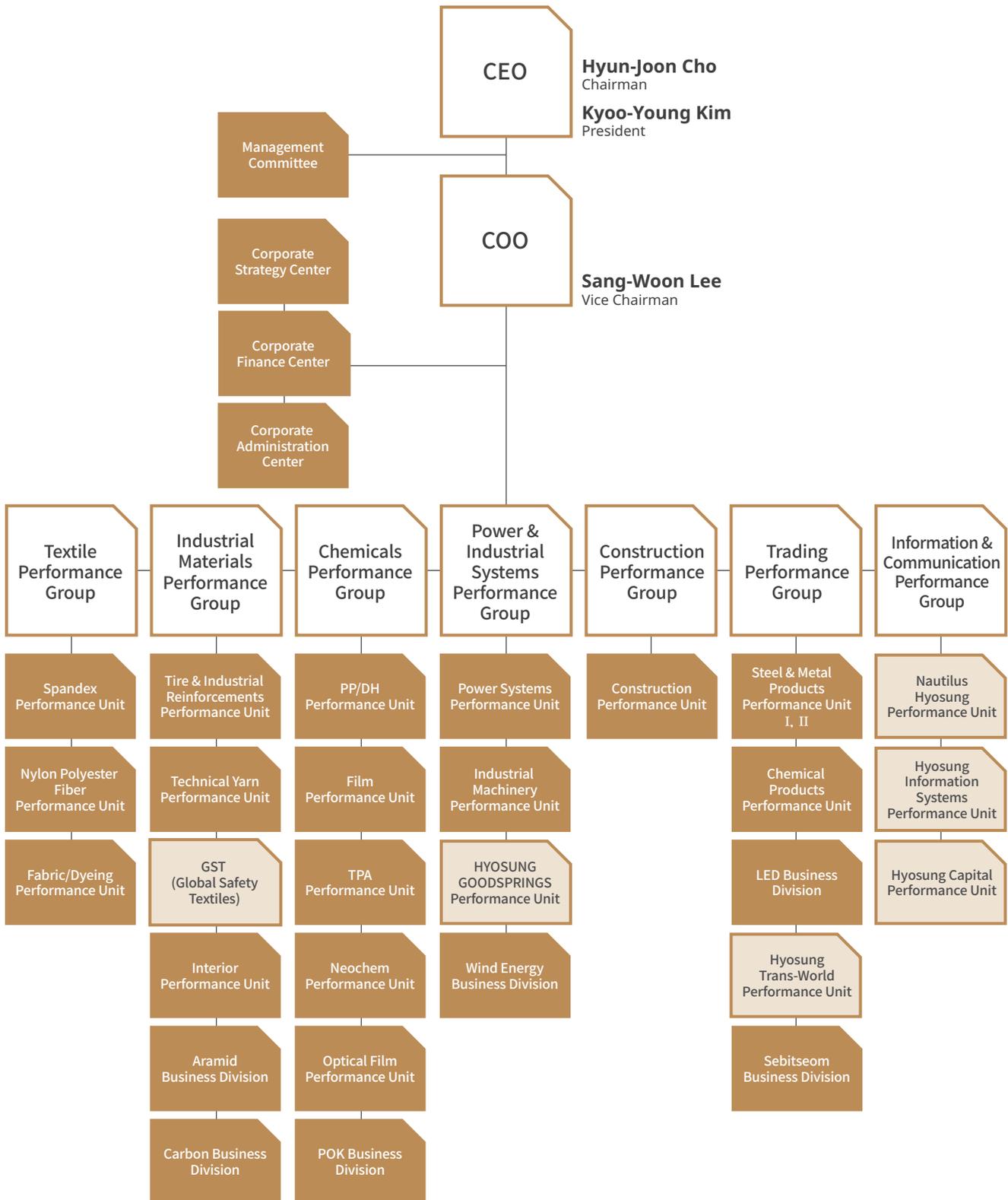


**Oh-Gon Kwon**  
President of the International Criminal  
Court (ICC) Assembly of States  
Former Consultant, Constitutional  
Court of Korea



**Sang-Myeong Jung**  
Lawyer of Chung Sangmyeong Law Firm  
Former Prosecutor General of the Korean  
Supreme Prosecutors' Office

# Corporate management



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# HYOSUNG

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